

THE LEONARD LETTER

October 11, 2005

QUOTE OF THE WEEK

"A government big enough to give you everything you want is big enough to take away everything you have." --- President Gerald Ford

AROUND THE STATE

*****The Uninsured*****

Much has been made of the number of people in California without health insurance. Some politicians see this as a huge issue. I was recently given some information as to who the uninsured are. First of all, the statistics are loaded. The number most often used is that 21% of California's population is uninsured. However, the pollster's question is actually this: "Have you been uninsured now or in the past six months?" The wording makes a difference. When asked the question, "Are you uninsured today?", the answer is 16%. The question has been shaded to up the number, and the difference reflects the normal economic activity in California of people changing jobs.

Since there are public health programs (Medi-Cal) for the poor, the bulk of the uninsured are full-time workers. And the bulk of these folks work for companies that do not offer health insurance. This big group is the target for Health Savings Accounts and health plans with low costs. Interestingly, 17% of those without health insurance who have a job have actually refused the coverage. They have made their own economic decision.

So, more than 80% of the population does have health insurance and another 5% (17% of 21%) decline coverage which further minimizes the problem. The big group who do work and who are not offered health insurance mostly work in the agriculture and construction sectors where they have multiple employers over the year thus making employer-offered coverage impossible.

Government regulations on health insurance policies should be modified to encourage insurance companies to develop products that would be sold directly to the family. Families should be

allowed to join their own groups not linked to a particular job so they can get the same discounts on health costs that the big employers get. I am convinced that individuals, if given the options, would be smart in choosing the best health care plans for their families.

*****Vexed*****

The Los Angeles Times had a recent story on campaign contributions with the headline: "Campaign Finance Law Vex Gov., Foes." While vex is a good verb describing the fact that campaigns have to spend more and more money on lawyers, it is also a weak word that fails to describe the fact that the law is silly. Recently, prominent Democrats and Republicans have had to return campaign contributions related to the 2005 special election because they violated campaign finance rules for the 2006 regular elections. There was no crime. Everybody knew who gave the money and who received the money. The law does not advance a public purpose and it actually hinders campaigns from communicating with voters. In an era of 24-hour news and the world wide web, the crude concept that campaigns should have less money for advertising and mailings instead of more money is wrong. If we want competitive campaigns, then campaigns must have the resources to do their job.

ISSUE FOCUS

*****When the Score Keeper is Corrupt*****

Newt Gingrich and Peter Ferrara co-authored an excellent piece in last Monday's Wall Street Journal, "Doesn't Anyone Know the Score?" They lament the near-universal sabotaging of President Bush's fiscal agenda by supposedly independent public agencies tasked with analyzing the future effects of the President's policies. Forecasting how policies will impact the budget is called "scoring." When elected officials really want to get to the bottom of a certain policy, they want to know how much it costs, or what the score is. The Gingrich column points out that the forecasting, or scoring, of national policy have been so consistently erroneous it almost defies belief. Gingrich charges that these errors were not random but stem from an ingrained bias against pro-market, pro-growth reforms. Indeed, the current method of scoring is called "static analysis" because it assumes policies have no effect on human behavior, thus one only needs a calculator to come up with the cost of programs. Well, human beings are not calculators and businesses have been known to grow when government gives them a break. The contrary is also true: when government raises taxes severely, businesses do less well and consumers spend less, thus less tax revenue is generated. Not taking these very simple reactions to tax policy into account when scoring is intentional economic ignorance. And its effect is to severely hamper

congress' ability to truthfully demonstrate to the American people how pro-market reforms work for the benefit of all.

Some highlights from the WSJ piece:

The Office of Management and Budget projected in February a federal budget deficit of \$427 billion for FY '05. In July, OMB said \$333 billion -- a 28% miss. In 2004, OMB February budget projection missed by \$109 billion.

The Congressional Budget Office in March projected a deficit of \$394 billion. Last month, \$331 billion -- a change of \$63 billion in five months.

Both OMB and CBO projected massive losses from the 2003 Bush tax cuts, which did not happen.

The Congressional Joint Committee on Taxation and the Treasury Department have also failed this administration. JCT scored the 1997 capital gains cut as a loss of \$28.8 billion for 2000-07. Capital gains revenue is now expected to grow to double their 1996 levels, just before the tax cut.

It is clear that this problem has enormous implications for Social Security reform. According to Gingrich, the CBO scoring of private accounts assumes that stocks earn no more than bonds - which is totally, historically false. Gingrich turns to Harvard's Martin Feldstein, who believes CBO is thus undervaluing private accounts in excess of \$10 trillion.

The opposite problem can also occur. Here in California, Pete Wilson's 1991 package of tax increases was scored statically by his Department of Finance. The result was a shortfall of \$1.5 billion to the General Fund. I asked the Legislative Analyst's office to document this in 1999 -- email me if you want a copy.

There is no doubt that the erroneous scoring culture in government is a huge impediment to flatter, fairer, and simpler tax policy. This is the problem that should be corrected now.

MISCELLANY

*****A Good Read*****

One of my favorite historians is Paul Johnson and this week I recommend you read his book "Intellectuals." Johnson looks at some very recognizable names: Jean-Jacques Rousseau, Karl Marx, Ernest Hemmingway, and others. He examines what made these "intellectuals" tick and how they contributed to a historical movement that believed that "they could diagnose the ills of society and cure them with their own unaided intellects." These intellectuals took it upon themselves to tell society and people how to transform and be better, and to do so by basically ignoring the wisdom of the ages, the traditions and the morals that had thus far guided humankind. Johnson's history is interesting, but his message is ever important: "[B]eware intellectuals. Not merely should they be kept well away from the levers of power, they should also be objects of particular suspicion when they offer collective advice....Above all, we must at all times remember what intellectuals habitually forget: that people matter more than concepts and must come first. The worst of all despotisms is the heartless tyranny of ideas."

BOE AND LEGISLATIVE DATES

October 10 - November 1, 2005 --- Voters may apply for absentee ballots for the November 8th special election.

October 18, 2005 --- BoE meets with County Assessors in Monterey.

October 18, 2005 --- Last day for sample ballots to be mailed to all voters who were registered by September 9th.

October 24, 2005 --- Last day to register to vote in the statewide special election.

October 25-26, 2005 --- Taxpayers' Bill of Rights Hearing in Sacramento along with BOE hearings.

November 1, 2005---BOE meeting in San Diego.

November 8, 2005 --- Statewide special election.

November 11, 2005 --- Veterans' Day.

November 14-16, 2005 --- BOE meeting in Sacramento.

November 24, 2005 --- Thanksgiving Day.

NOTABLE DATES/ HISTORY

October 11, 1884 --- Birthdate of Eleanor Roosevelt.

October 12, 1918 --- The iron lung was used for the first time (Boston's Children Hospital).

October 12, 1963 ---At 4 AM, traffic on San Francisco's Bay Bridge became one-way on each deck.

October 12, 1977 --- The U.S. Supreme Court heard arguments in the reverse discrimination case of Allan Bakke, a white student who denied admission to a UC med school.

October 13, 1775 --- The Continental Congress ordered the construction of a naval fleet.

October 14, 1890 --- Dwight D Eisenhower was born in Denison, Texas. (34th President, 1953-1961).

October 14, 1947 --- Chuck Yeager, in Bell XS-1, made the first supersonic flight (Mach 1.015) over California airspace.

October 14, 1964 --- Martin Luther King Jr won the Nobel Peace Prize.

October 15, 1863 --- The Cliff House opened in San Francisco. (It was the first of many on the site.)

October 15, 1878 --- Edison Electric Light Company was incorporated.

October 15, 1976 --- The first debate of major-ticket vice presidential nominees [Walter Mondale (D) versus Bob Dole (R)] was held.

October 15, 1991 --- Clarence Thomas was confirmed as a Supreme Court Justice.

October 16, 1923 --- The Walt Disney Company was founded.

October 16, 1982 --- The Mt. Palomar Observatory was the first to detect Halley's comet on its 13th recorded return.

October 16, 1987 --- Jessica McClure was rescued 58 hours after falling 22' into a well shaft.

GENERAL TAX INFORMATION

For answers to your general tax questions, call the Board of Equalization information center. Customer service representatives are available to help you from 8:00 a.m. to 5:00 p.m. Pacific time, Monday through Friday (except state holidays).

Toll-free number: 800-400-7115
TDD service for the hearing impaired
TDD phones: 800-735-2929
Voice phones: 800-735-2922

To reach the Taxpayer Rights Advocate's office for assistance with any BOE issues, see <http://www.boe.ca.gov/tra/tra.htm>, or call toll-free 1-888-324-2798.

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